

ARTICLE APPEARED  
ON PAGE **12-13**



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## A sweetheart deal for E-Systems

**T**HIS IS A STORY ABOUT big guys and little guys. The big guy in the story is the Dallas-based multinational electronics company, E-Systems. In the five years since it was taken over by a group of former high-level defense and intelligence officials, E-Systems has become a favored contractor for a series of highly sophisticated electronic warfare projects, and it has skyrocketed into the *Fortune* 500, with annual sales of over \$320 million.

The little guy is the Bristol Electronics Company of New Bedford, Massachusetts, owned by Stanley B. Revzin, the son of Polish-Russian immigrants. Put together on a shoestring in 1960, Bristol gradually built up a trade in marine radios and other electronic gadgetry until, by 1973, the company employed 180 workers and grossed \$4 million a year in sales.

But since 1973, when he began to compete with E-Systems for defense contracts, Revzin's business has taken a nose dive: the company is down to 50 employees and will be lucky to gross \$1 million in sales this year.

Stanley Revzin now has a chance to tell the public and Congress how that happened. At a hearing sponsored by Senators William Proxmire (D.-Wis.) and Edward Brooke (R.-Mass.), the Senate Banking Committee will look into whether the Pentagon follows the rules in handing out defense contracts.

Revzin believes, and the committee strongly suspects, that the rules have

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been broken. Pulling together information previously gathered by other government investigators, they have found that:

- the U.S. Army has consistently favored E-systems over smaller companies, such as Bristol, that offered lower bids on contracts;
- the army has changed contract specifications at the last minute to steer to E-Systems contracts that should have gone elsewhere;
- the army awarded E-Systems a contract to build an item at a low unit price, and then later allowed it to exercise an option to build many more of the same items at much higher prices;
- the company has possibly had the benefit of inside information from army officials who later became its employees.

**T**HE PROCESS THAT EVENTUALLY led to Stanley Revzin's sad fortunes began 12 years ago, when the U.S. Army began proping up a failing Indiana electronics company, known as MEMCOR, with millions of dollars of cash grants, unsecured loans, and contracts to build electronic gear. Government welfare to the corporation thus indirectly encouraged an outside takeover. The LTV-Electrosystems Company stepped in and grabbed MEMCOR. But LTV itself had troubles, and even with the continued flow of government largesse, couldn't make a go of it. In 1973, the company, now named E-Systems, was bought by a group of investors headed by a former assistant comptroller of the Defense Department, John W. Dixon. Lloyd K. Lauderdale, once head of the Central Intelligence Agency's science and technology directorate, was installed as vice president, while a former CIA director, William F. Rayborn, was recruited for the board.

MEMCOR and Bristol had competed for contracts before, with Bristol generally winning out, but the new group of E-Systems owners would soon prove to be overpowering. In 1973, the army had solicited bids from several companies for a contract to build field radios for the South Korean armed forces under the foreign military sales program. For the first two rounds of sealed bidding, Bristol came in with the lowest price, E-Systems the highest. During the third and fourth round of biddings, however, the army made three changes in the contract, during which time E-Systems mysteriously

permitted to boost its prices for the unit considerably.

Bristol's Revzin complained to the army that his bid—including the option—was much lower than E-Systems's. But even with Revzin, his local congressman, Gerry Studds (D.-Mass.), one of his senators, Brooke, and the General Accounting Office looking on, the army went ahead and made contract "modifications" (not "options") that allowed E-Systems to build, at higher prices, twice as many radios as in the original contract, nearly quadrupling the total value of the deal to a whopping \$11 million.

Representative Studds asked the Justice Department to investigate this award. Within weeks, the Justice Department replied that it had found "no grounds" to institute a criminal investigation.

**I**N THE SUMMER OF 1976, Representative Jack Brooks (D.-Tex.), chairman of the House Government Operations Committee, held hearings on the matter and uncovered a number of clues to explain why the army gave E-Systems such kindly treatment. "The circumstances seem to point to a predetermination on the part of the army that E-Systems would receive the contract," Brooks remarked to Assistant Secretary of the Army Harold Brownman.

But Brownman had another explanation. "I believe that this is just a good case of sloppy workmanship and nothing else," he replied. "I certainly hope so."

What went unstated was that Brownman, who had come to the Pentagon after the disputed contract had been awarded, had been a vice president at E-Systems. But the man he had replaced in the Pentagon job, the man who had been in charge of awarding the E-Systems contract, had gone on later to become a corporate vice president at E-Systems, replacing Brownman. "Just a beautiful example of how not to do business," sputtered an obviously frustrated Brooks.

What Brooks didn't know at the time was that E-Systems had locked up the South Korean end as

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well. In 1977, the Securities and Exchange Commission learned that E-Systems, some army officials, U.S. congressmen, and South Korean agents were apparently involved in 1973 in a complicated money-washing and bribery operation whose goal was to maintain E-Systems as South Korea's prime supplier of sophisticated electronic gear. Reviewing the E-Systems-Pentagon-South Korean deal in which Bristol had been shoved aside at the last minute, the SEC discovered payments of over \$1 million in "commissions" to two Korean "consultants" in Los Angeles, one of whom was the nephew of a military attaché at the South Korean embassy in Washington. In papers it filed in court last summer, the SEC said it was seeking to determine whether any of the money was transferred to members of Congress or U.S. military officials "in the form of bribes."

Partial results of the SEC probe were issued in the form of a "complaint" last March. It found that two officials of E-Systems's MEMCOR branch in Indiana, which had manufactured the equipment, had passed the "commissions" to the Koreans. E-Systems had also used the influence of another friend in the military to help secure the contract with the Koreans: Lieutenant General Robert N. Smith, who until October 1973, was the chief of staff of United Nations forces in Korea. On July 13, 1973, the Koreans had designated E-Systems its "sole-source" supplier of the radio equipment; that December, Smith joined E-Systems as a vice president in charge of Far East operations.

**THESE REVELATIONS HAVE** barely ruffled the waters at E-Systems. Company president John Dixon says that "the outcome of the SEC proceeding will in itself have no material, adverse effect on E-Systems or its business prospects." Nor does this seem an empty boast, for since its rebirth in 1973, E-Systems has enjoyed a special relationship with the national security bureaucracy. In 1975, Secretary of State Henry Kissinger entrusted it with the contract for the supersensitive Sinai monitoring system. The company also got the contract for the controversial AWACS airborne radar system for the Iranian air force, and it was allowed to take over, at a price far below its value, the CIA-owned airline in Taiwan, Air Asia. Even as government officials were in-

vestigating allegations that the company had funneled money through Korean agents to U.S. defense officials and congressmen, E-Systems won a contract to maintain Air Force One. In all, the company received government contracts totaling almost \$25 million in a five-month period following Brooks's 1976 hearings. Sales zoomed to a record \$347.4 million in 1977.

The investigations of E-Systems apparently had little effect, either, on the company's cozy relationship with the army. This summer, Representative Brooks found that, in another incident adversely affecting Bristol Electronics, the army had awarded E-Systems a \$1.4 million contract for radioteletype units in September 1977. The company had dropped its bid 48 percent in the last round to slip in again just under Revzin's firm. Investigators from the Brooks committee also learned that Colonel Donald Rehman, an army officer who had made sole-source specifications in E-Systems's favor, had retired on August 31, 1977, and gone to work, seven days later, as a manager of international marketing and logistics at E-Systems's MEMCOR subsidiary in Indiana.

The investigators also found evidence that the army and E-Systems were again engaged in a form of "buy-in," a scheme similar to that used successfully in 1973. On May 10, 1978, E-Systems and the army signed a no-bid, sole-source contract for 355 radar sets at \$5584 each. Two days later, when the army opened bids from many companies (all much smaller than E-Systems) for a separate procurement for almost 1500 identical sets, E-Systems came in with a winning bid of \$1605, almost \$4000 less than the amount it was awarded in the previous contract.

How did E-Systems know such a figure would be a winning bid, and why had it been designated the "sole-source" in the earlier contract award, Representative Brooks wondered at a hearing in July. "The Army says itself you can't build this item for less than \$3500 a unit," Brooks said. "Why, the materials alone cost \$1600. You know they must be planning to get well by selling them to some of our allies at jacked up prices."

This was indeed the case. E-Systems had already begun negotiating with its old friends in the South Korean military to sell for \$13,000 the radar sets it had peddled to the Pentagon for

\$500, then \$1600. And who would pay for that in the end? Noting that this year the United States was giving South Korea \$400 million of military aid, Brooks logically concluded: "Thus, to the extent that Korea is overcharged, they are, in effect, overpaying with our own money."

A memo from Major General John K. Stoner to a subordinate, which committee investigators turned up, summed up the army's attitude. Referring to the high prices the South Koreans would be paying for the radar detectors, Stoner had snorted: "... let them pay through the nose for it. They are just friends."

**SENATORS BROOKE AND** Proxmire hope that the current hearings will provide some life for a bill they have introduced that would prevent defense officials who hand out contracts to private industry from working for companies to which they may award contracts for a period of two years. Mild as that may sound, aides to the senators say that the Carter administration has shunned that legislation, and a similar bill is languishing in the House. In the meantime, of course, E-Systems is flexing its political muscles on Capitol Hill; Senators Birch Bayh and Richard Lugar, both of Indiana, have sent out a letter to Army Secretary Clifford Alexander asking him not to get too excited about all the fuss. And the SEC and Justice Department have given company officials a grace period. As part of the arrangements worked out last March, E-Systems was required to hire outside counsel to conduct an audit of its contracts with the army, South Korea, and other foreign governments. The report is due in November, and just may provide some interesting new casework for the Senate and House committees and the Justice Department. After all, E-Systems, through the Pentagon and on its own, is active virtually around the world, with favored clients in such nations as El Salvador, Indonesia, Iran, the Philippines, and Brazil.

But whether Congress or the Justice Department can put an end to E-Systems's cozy relationship with the Pentagon is another question. E-Systems is one of the big guys, with friends at the top. As Representative Brooks put it in 1976, "... they just play games with you like you're in the third grade and they run right around you and go do as they please." □